Children’s Health Coverage in Arizona: A Cautionary Tale for the Future of the Children’s Health Insurance Program (CHIP)

by Elisabeth Wright Burak

Summary

The Children’s Health Insurance Program (CHIP) and Medicaid have worked together to help bring children’s health coverage to all-time highs, but this success is at risk with uncertainty about CHIP’s future. No additional CHIP funds will be available to help states provide health coverage to children if Congress does not act to extend funding before October 2015. Arizona is the only state in the country without an active CHIP program, beginning with a 2010 enrollment freeze.1 This brief reviews Arizona’s policy changes since 2010, drawing on focus groups with Arizona families as well as a comparison of CHIP and marketplace costs. The state’s recent history with CHIP offers a glimpse of what could happen in other states if CHIP funding is left to sunset or is not extended early enough in the budget cycle for states to continue covering children without disruption. As policymakers debate the future of CHIP, Arizona’s experience suggests:

- CHIP eligibility rollbacks or new program restrictions could make more children uninsured or create coverage disruptions that keep them from getting the care they need.
- Without strong federal protections, notably the Affordable Care Act’s maintenance-of-effort (MOE) requirement for children, states may choose to cut children’s coverage.
- Children cannot yet rely on strong, affordable marketplace coverage to meet their needs.
- In the absence of new CHIP funds, many more children would lose coverage without the Affordable Care Act’s “stairstep” provision that transitioned school-aged children from CHIP to Medicaid.

Arizona’s experience can provide insight into how children will be impacted if CHIP funding is not renewed in time for states to ensure continuity of care and to reassure families that their children’s coverage is safe.
Introduction

In the last two decades, many national and state leaders made children’s health coverage a priority with the recognition that access to health care can play a pivotal role in children’s ability to succeed in school and grow into healthy, productive adults. Medicaid and CHIP’s success demonstrate that thoughtful public program investments can have a meaningful impact on the lives of children and families.

As a federal-state partnership program, states rely on federal CHIP funding and guidance to provide affordable coverage to children in families that earn too much to qualify for Medicaid but too little to afford private health insurance. The future success of children’s coverage is closely tied to what happens to CHIP in the coming months. No new CHIP funding is available after September 2015 without Congressional action. Without federal funding, most state CHIP programs would gradually disappear leaving many families struggling to find alternative affordable coverage options for their children. This brief chronicles Arizona’s experience as the only state without an active CHIP program and what it could mean for children’s coverage in other states and nationwide if CHIP funding is not renewed.

Children’s Health Coverage in Arizona

Like the U.S., Arizona experienced a significant decrease in the rate and number of uninsured children between 2008 and 2013 (see Figure 1).2 In 2008, 15.1 percent of Arizona children, or 258,339, were uninsured. By 2013, the rate dropped to 11.9 percent, or 191,760 uninsured children.3

Despite substantial progress, Arizona’s rate of uninsured children continues to lag behind the national average (7.1 percent) and most other states. The state ranks 49th among all states and the District of Columbia—only Nevada (14.9 percent) and Texas (12.6 percent) had higher rates of uninsured children in 2013.4

In Arizona, the rate of uninsured children fluctuated between 2008 and 2013. The U.S., on the other hand, saw a steady and consistent decline in the rate of uninsured kids between 2008 and 2013. Arizona’s rate dropped significantly from 2008 to 2009, increased between 2009 and 2012, and decreased again from 2012 to 2013. As discussed below, these fluctuations align with changes to Arizona’s public coverage programs for children.

Fluctuations in Arizona’s uninsured rate for children correspond with the state’s changes to CHIP between 2010 and 2013.

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Figure 1. Percent of Uninsured Children: Arizona vs. United States, 2008-2013

![Graph showing percentage of uninsured children in Arizona and the United States from 2008 to 2013, with key events such as the KidsCare/CHIP enrollment freeze and the KidsCare II opens in Arizona.](image-url)
The Impact of State Policy Changes on Children’s Coverage

Arizona made a series of changes to its children’s coverage programs beginning in 2010 (see timeline below). Major state budget cuts resulted in Arizona freezing new enrollment in its CHIP program, KidsCare, just before January 2010. By July 2011, the KidsCare waiting list had grown to more than 100,000 children. Five additional eligibility changes in the state’s CHIP program occurred between 2012 and 2014 as a result of federal-state agreements or changes from the Affordable Care Act (ACA).

<table>
<thead>
<tr>
<th>Date</th>
<th>State Policy Change</th>
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<tbody>
<tr>
<td>January 2010</td>
<td>KidsCare/CHIP enrollment freeze. No new applications accepted for KidsCare; existing beneficiaries able to stay on if 1) child remains eligible, 2) parents renew annually as required, and 3) parents maintain monthly premium payments. Nearly 46,000 children are enrolled in KidsCare when the freeze goes into effect. KidsCare waiting list swells to more than 100,000 by July 2011.</td>
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<td>May 2012</td>
<td>Enrollment opens for Kids Care II, a time-limited alternative CHIP program for children up to 175% of the federal poverty line, or FPL, (unlike original KidsCare eligibility limit of 200% FPL). KidsCare II was the result of an agreement with federal officials to re-open CHIP coverage for some children, with the idea that the program would end in January 2014 to correspond with the ACA’s new marketplace coverage options. KidsCare II was initially capped at a maximum of 25,000, which was reached by September 2012.</td>
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<td>November 2012</td>
<td>Kids Care II enrollment reopens for additional children.</td>
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<td>May 2013</td>
<td>Kids Care II returns income eligibility limit to 200% FPL.</td>
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<td>January 1, 2014</td>
<td>Transfer of school-aged “stairstep” children from KidsCare to Medicaid. More than 26,000 children ages six through 18 enrolled in KidsCare and KidsCare II (the state CHIP program) with family incomes up to 138% FPL transferred to the Arizona Health Care Cost Containment System (AHCCCS, or Medicaid). All children with incomes up to 138% FPL now eligible for Medicaid.</td>
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<tr>
<td>January 31, 2014</td>
<td>Kids Care II ends, KidsCare enrollment freeze remains in effect. 14,000 children lose KidsCare II, receive notices referring them to the ACA’s new federal health insurance marketplace where some of them could potentially purchase health insurance.</td>
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Children’s coverage fluctuations reflect state policy decisions.

Arizona’s fluctuating rate of uninsured children between 2009 and 2013 mirrors the timeline of state policy decisions to freeze and subsequently re-open enrollment for CHIP coverage through KidsCare II. A significant increase in the rate of uninsured children between 2009 and 2012 corresponds with the decision to freeze KidsCare, while the significant decrease from 2012 to 2013 likely reflects the decision to re-open CHIP through KidsCare II, as shown in Figure 1 on page 2. Data for 2014 is not yet available to help understand any changes in coverage that may have occurred with the state’s most recent decision to dismantle its CHIP program as of January 2014 in conjunction with the full implementation of the Affordable Care Act. Only 1,872 children remain in the original KidsCare program.9 Enrollment in KidsCare steadily declined since the state stopped accepting new applications in 2010.10

Frequent KidsCare policy changes—six between January 2010 and January 2014—created confusion for families and instability in children’s coverage.

Focus groups with families losing KidsCare coverage in 2013 or 2014 indicate that the multiple KidsCare eligibility changes and unclear communication about what they meant created confusion for families that likely led to disruptions in coverage and care.11 Similar to the challenges voiced by families who could no longer qualify for KidsCare after the freeze went into effect,12 families that recently lost CHIP experienced frustration and confusion about their children’s coverage options; in some cases they had no affordable coverage option available.13

Arizona also made a number of changes to adult public coverage programs during this time, most notably the end of KidsCare Parents in 2009, which provided coverage for working parents between 100 and 200 percent of the federal poverty line (FPL). The state ultimately took up the ACA’s Medicaid expansion to adults in January 2014. Changes to parent coverage likely only added to confusion around public program eligibility for children.

Where Did Children Get Coverage When KidsCare Ended?

Figure 2 provides details on coverage transitions for children in KidsCare and KidsCare II since the original freeze went into effect. In January 2014, just over 37,000 Arizona children were enrolled in KidsCare II. Of these children:

- 23,000 “stairstep” children—60 percent of KidsCare II enrollees—transitioned to Medicaid, the Arizona Health Care Cost Containment System (AHCCCS), keeping affordable coverage despite the CHIP program’s sunset. The ACA created a uniform eligibility threshold for children of all ages in Medicaid at 138 percent of the FPL, requiring some states, including Arizona, to move children from CHIP to Medicaid. Before the ACA, the federal income eligibility threshold for children under age six was higher than for school-aged children, creating a “stairstep” in eligibility levels. In states that held Medicaid eligibility at federal minimums, including Arizona, children just over the poverty line moved from Medicaid to CHIP coverage when they turned six.
- 14,000 children lost coverage, and it’s unclear how many were able to enroll in federal marketplace plans. Children who lost KidsCare II in January and were not eligible for Medicaid coverage faced one of two possible scenarios. Some may have received financial assistance under the ACA to purchase new marketplace coverage. Others, though, would not be eligible for this financial assistance because a parent’s offer of employer-sponsored insurance is deemed affordable based solely on the offer of individual, not family, coverage. This ACA policy—often referred to as the “family glitch”—means children in these families risk becoming uninsured. Data is not currently available to assess how many of these children successfully gained coverage or remain uninsured.

Figure 2 Notes
Enrollment figures rounded to the nearest hundredth.
Figure adapted from “Dismantling CHIP in Arizona: How Losing KidsCare Impacts a Child’s Health Care Costs,” Georgetown University Center for Children and Families and Children’s Action Alliance (May 2014), p. 4.
Sources:
What Can Arizona’s Experience with Children’s Coverage Tell Us about the Future of CHIP?

Arizona’s experience suggests that if CHIP funding is not extended or the program itself is fundamentally changed our nation’s historic gains in covering children could unravel, making many children worse off than they are today.

CHIP eligibility rollbacks or new restrictions could make more children uninsured or, at a minimum, create coverage disruptions that keep them from getting the care they need.

Eligibility freezes and subsequent stops and starts to re-open or cap children’s coverage resulted in fluctuating children’s coverage levels in Arizona. When eligibility was frozen, more Arizona children joined the ranks of the uninsured. While the ACA provides a new coverage option for children through marketplaces, estimates suggest that as many as 2 million children nationwide could be locked out of financial support to pay for coverage due to the family glitch if CHIP funding is not extended. Yet, even if CHIP funding is extended, new eligibility restrictions or limits would still make more children subject to the family glitch, and many of them could become uninsured.

These eligibility stops and starts also impacted families’ coverage experiences. A companion report summarizing parent focus groups found that the frequent KidsCare changes jeopardized continuity of care—some children experienced disruptions in care. These many changes and unclear communication created uncertainty as families struggled to figure out what affordable coverage options were available. New program rules and changes—especially during a period of great transition for the U.S. health system—could create confusion and misinformation that disrupt health care for many children, even when alternative coverage is ultimately available.

Without strong federal protections, states may choose to cut children’s coverage.

The ACA’s maintenance of effort (MOE) requires states to maintain eligibility and enrollment processes for children through 2019 as long as federal funding is available, to prevent disruptions in children’s coverage as new coverage options are put in place for adults. Arizona is the only state able to cut back its children’s coverage with the MOE since its KidsCare freeze was in place prior to the enactment of the ACA. Without this federal protection for children, other states could follow Arizona’s lead as they search for state budget savings by rolling back children’s coverage, risking many children becoming uninsured or paying more for far less comprehensive coverage in marketplaces.

Children cannot yet rely on strong, affordable marketplace coverage to meet their needs.

Without CHIP, even those families fortunate enough to access ACA financial assistance to purchase marketplace coverage would still pay substantially more without the same confidence that the right services will be available for their children when and if they are needed. Georgetown Center for Children and Families and Children’s Action Alliance conducted a comprehensive affordability analysis of KidsCare and Arizona marketplace plans, looking at multiple scenarios of children with different health care needs, at varying income levels, and for multiple plans. The study found that families would pay much more to get care in marketplace plans compared to KidsCare in 17 out of the 18 scenarios studied. Arizona’s KidsCare benefits are also more comprehensive and child-focused than available marketplace plans. Like most other states, Arizona based...
its CHIP program benefits on those available for children in Medicaid, which sets a strong standard for pediatric benefits.17

Multi-state evidence makes clear that these concerns about affordability and benefits are not limited to Arizona. A recent 35-state analysis by Wakely Consulting Group found that cost-sharing in marketplace plans could cost as much as ten times more than CHIP.18 The same study shows that CHIP coverage remains much more comprehensive and child-focused than that available in most marketplace plans, providing a wider range of pediatric services with fewer limits.19 Without CHIP, families in many states would pay more or be forced to forego services critical to their children’s healthy development, such as dental care and hearing aids. They could also face stricter limits on services, such as speech, occupational, or physical therapies that support key developmental milestones.

In the absence of new CHIP funds, more children would lose coverage without the Affordable Care Act’s “stairstep” provision that transitioned school-aged children from CHIP to Medicaid.20

Sixty percent of children who lost KidsCare II kept strong coverage through Medicaid due to this ACA provision to align eligibility for all children. Financially these families became better off, since Medicaid does not charge a premium, whereas KidsCare required a monthly premium up to a maximum of $15, or $180 annually, for these families. It also meant that families did not face the added confusion of paying a monthly premium for some but not all children in the family depending on their age. Focus groups of Arizona parents losing KidsCare suggest that those whose children ended up in AHCCCS feel more confident about the quality and affordability of coverage than parents whose children ended up with marketplace coverage, employer-sponsored coverage, or uninsured.21 This ACA provision can protect more children from becoming uninsured or facing more costly coverage in the marketplace in the event CHIP funding is discontinued.22

Conclusion

Medicaid and CHIP have shown that thoughtful public program investments can have a meaningful impact on the lives of children and families. The two programs have provided coverage to millions of children, helping them get the care they need for healthy development while keeping their families’ finances secure.

Arizona’s children’s coverage experience in recent years can help policymakers weigh this success and the risks that lie ahead for children as they contemplate CHIP’s future. Unlike Arizona, which ranks near last in its rate of uninsured children, most states have taken full advantage of federal CHIP and Medicaid dollars to provide coverage to children. Without CHIP, other states will experience significant barriers to maintain stable coverage for children if CHIP funding is not extended or its structure is significantly altered.

While more information is needed to gain a full picture of the impact of Arizona’s decision to end CHIP, the state’s coverage fluctuations and the experiences of families losing KidsCare reinforce previous research that shows the risks in letting CHIP coverage expire without first improving affordability and adequacy of marketplace coverage for children. Making major eligibility or structural changes to the children’s coverage available today could make more children uninsured and create additional uncertainty and disruptions in care for children even as they transition to new coverage, if available.

Keeping CHIP and Medicaid stable for children as marketplace coverage evolves can sustain the nation’s success for children and give families confidence, stability, and peace of mind that their children can continue to get the health care they need to thrive.
Endnotes

1 Arizona is unique as the only state with the ability to cut back children’s coverage in CHIP. The Affordable Care Act’s maintenance of effort (MOE) required states to maintain eligibility and enrollment processes for children that were in place as of March 2010 through 2019 to prevent disruptions in children’s coverage as new coverage was created for adults. Arizona is the only state that is not subject to the CHIP MOE requirement since its KidsCare freeze was already in place.


3 Georgetown Center for Children and Families analysis of uninsured data for children from the Census Bureau’s American Community Survey, 2009 – 2013, as reported in annual briefs on uninsured children.


6 Ibid.


19 Ibid.


22 However, states would lose some federal funding to cover these children in Medicaid since states continue to receive the CHIP enhanced matching rate after their transfer to Medicaid. The loss in federal support would amount to the difference between a state’s Medicaid and enhanced CHIP match for covering these children.
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The Center for Children and Families (CCF) is an independent, nonpartisan policy and research center whose mission is to expand and improve health coverage for America’s children and families. CCF is based at Georgetown University’s Health Policy Institute.